COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 22, 2000

APPLICATION OF

VIRGINIA GAS DISTRIBUTION
COMPANY CASE NO. PUE990531

For a general rate increase

FINAL ORDER

On August 25, 1999, Virginia Gas Distribution Company ("VGDC" or "the Company") filed with the Clerk of the Commission an application for a general rate increase. In its application, the Company proposed to increase its rates to recover non-gas revenues of approximately $300,000. The Company intends to phase in the rate increase over a two-year period. During the first year, the Company proposes to recover one-half of its non-gas requirement, or $150,000. The Company would phase in the remainder of its proposed rate increase at the start of the second year. The Company also proposed revisions to the general terms and provisions of its tariff to reflect a purchased gas adjustment in its basic rate structure.

On September 14, 1999, the Commission entered an Order for Notice and Hearing. In that Order, the Commission suspended the Company's proposed rate increase for a period of 150 days, or through January 22, 2000; appointed a Hearing Examiner to hear the case; directed the Commission’s Staff to investigate the Company’s application; scheduled a hearing on the application for February 2, 2000; and established procedural dates for the filing of pleadings, prepared testimony and exhibits, and the publication of notice. There were no Notices of Protests, Protests, or comments filed pursuant to that order.

On January 20, 2000, the Company filed a Motion to Implement Rates and Accept Bond. By Ruling dated January 21, 2000, the Hearing Examiner granted the Company’s Motion and allowed VGDC to implement its proposed rates subject to refund with interest on and after January 23, 2000. The Company’s bond to secure any refunds ordered by the Commission was accepted for filing.

On January 28, 2000, Staff filed a Motion for Leave to File Stipulation. Attached to that Motion was a Joint Stipulation between Staff and the Company designed to resolve all issues in this matter.

A hearing on the application was convened on February 2, 2000, before Hearing Examiner, Michael D. Thomas. No public witnesses appeared to comment on the Company’s proposed rate increase or revisions to VGDC's tariff. Proof of public notice was received into the record.

On February 4, 2000, the Hearing Examiner filed his Report. In his Report, the Examiner found that:

(1) The proposed rate increase as set forth in the Joint Stipulation and Schedule A attached thereto is reasonable and should be approved by the Commission; and

(2) The tariff revisions set forth in the Joint Stipulation are reasonable.

By letter dated February 10, 2000, counsel for VGDC notified the Commission that it would not file any comments to the Hearing Examiner’s Report.

The Examiner recommended that the Commission enter an order adopting the findings in his Report, approving the proposed revenue increase, rates, and tariff revisions set forth in the Joint Stipulation and Schedule A attached thereto.

NOW THE COMMISSION, upon consideration of the record, the Hearing Examiner’s Report, and the applicable statutes, is of the opinion and finds that the findings and recommendations of the Hearing Examiner are reasonable and should be adopted. Accordingly,

IT IS ORDERED THAT:

(1) The findings and recommendations of the Hearing Examiner's February 4, 2000, Report are accepted.

(2) The Joint Stipulation between the Company and Staff, identified as Appendix A hereto, is accepted, and is incorporated into this Order by its attachment.

(3) VGDC is hereby authorized to increase its gross annual revenues by $300,000 for service phased in over a two-year period for service rendered on and after January 23, 2000. One-half, or $150,000, shall be recovered the first year. At the start of the second year, the Company shall phase in the remainder of its authorized increase.

(4) On or before March 1, 2000, VGDC shall file with the Division of Energy Regulation revised tariffs which are consistent with the findings made herein, effective for service rendered on and after January 23, 2000.

(5) The Company shall forthwith implement the Staff's booking and accounting recommendations as detailed in Appendix A attached hereto.

(6) VGDC shall implement the rate design, cost of service study, revenue apportionment, and tariff revision proposals described in Appendix A attached hereto.

(7) There being nothing further to be done in this matter, it is hereby dismissed.

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

APPLICATION OF

VIRGINIA GAS DISTRIBUTION COMPANY Case No. PUE990531

For a general rate increase

JOINT STIPULATION

Virginia Gas Distribution Company ("VGDC" or the "Company") and the Staff of the State Corporation Commission ("Staff"), by counsel, hereby stipulate as follows:

1. VGDC filed its current application on August 25, 1999, requesting a general increase in rates designed to recover an additional $300,000 in gross annual revenues phased in over a two year period based on results of the test year ended December 31, 1998. The proposed rate increase is not premised upon an authorized return on equity but on recovery of higher costs related to significant system expansion. The rates were placed in effect on an interim basis for service rendered on and after January 23, 2000.

2. The Company's application is supported by the prefiled testimony of witnesses Michael L. Edwards, Robert B. Withrow, Jr., Catherine M. Lacy, and William L. Clear, as well as completed Schedules 1-36 as required by the Commission's rules regarding utility rate increase applications and annual

informational filings ("Rules"). It is stipulated that the Company's application, prefiled testimony, and schedules may be accepted into the record without the witnesses present and without cross-examination.

3. On December 22, 1999, Staff submitted the prefiled testimony of witnesses Richard W. Taylor, Farris M. Maddox, and John A. Stevens. Staff's prefiled testimony recommends that VGDC be awarded the requested increase of $300,000 phased in over a period of two years (i.e., $150,000 for the current year) based on recovery of costs rather than return on equity. It is stipulated that the Staff's prefiled testimony may be accepted into the record without the witnesses present and without cross-examination.

4. For purposes of establishing the Company's rates in this proceeding, it is stipulated that the Staff's recommendations may be accepted as set forth in its prefiled testimony and as summarized on the attached Schedule A.

5. Based upon the foregoing stipulations, VGDC waives its right to file rebuttal testimony.

6. No other party has appeared in this proceeding.

7. This stipulation is not severable. In the event that the Commission determines not to accept and approve the stipulation in its entirety, the Participants respectfully request that the Commission issue an Interim Order remanding the

matter to the Hearing Examiner and providing the Participants the opportunity to attempt to reach a modified stipulation that addresses the Commission's concerns. If no such modified stipulation can be reached, the Participants, or any one of them may withdraw their support for this stipulation and proceed with the further hearing on any of the issues raised in this proceeding.

VGDC and the Staff respectfully submit this stipulation and request that it be accepted by the Commission.

IT IS SO STIPULATED

THE STAFF OF THE STATE
CORPORATION COMMISSION

By: ________________________
Counsel

Marta B. Curtis
Attorney
Allison L. Held
Attorney
Office of General Counsel
State Corporation Commission
P.O. Box 1197
Richmond, Virginia 23218
(804) 371-9671

VIRGINIA GAS DISTRIBUTION
COMPANY

By: ____________________________
Counsel

JoAnne L. Nolte
PennStuart
P.O. Box 617
Richmond, Virginia 23218–0617
(804) 819-1770

CERTIFICATE

I hereby certify that a true copy of the foregoing was mailed or hand delivered to the Commission's Divisions of Economics and Finance, Energy Regulation, and Public Utility Accounting; JoAnne L. Nolte, Esquire, PennStuart, P.O. Box 617, Richmond, Virginia 23218-0617; and John F. Dudley, Senior Assistant Attorney General, Division of Consumer Counsel, Office of Attorney General, 900 East Main Street, Richmond, Virginia 23219.

SCHEDULE A

The Company accepts Staff's recommendations on the following issues:

I. Accounting Recommendations

1. Use of a test period ended December 31, 1998, as to rate base, revenues, and rate base sensitive items, is appropriate.
2. The Staff's accounting adjustments are appropriate and should be adopted.
3. The Company's revenues on a Virginia jurisdictional basis, after all adjustments, for the test period were $1,027,901.
4. The Company's total operating revenue deductions on a Virginia jurisdictional basis, after all adjustments, for the test period were $884,474.
5. The Company's operating income on a Virginia jurisdictional basis, after all adjustments, and adjusted operating income, after all adjustments, were $143,427 and $142,737, respectively.
6. The Company on a Virginia jurisdictional basis earned 2.28% on its rate base of $6,272,958, after all adjustments, and earned a –3.58% return on common equity, after all adjustments.

7. The Company accepts the following booking and accounting recommendations:

(i) The Company shall maintain sufficient records to track the accounting impact of capitalized interest items (e.g., plant in service, accumulated depreciation, construction work in progress ("CWIP"), and accumulated deferred income taxes) based on the approved ratemaking methodology.

(ii) The Company shall book construction projects as CWIP (or Account 107), Account 183, Account 426.5, or Account 101, and any related accumulated depreciation consistent with Staff's recommendations as detailed in its December 22, 1999, prefiled testimony. The Company shall also book office and equipment in the Grundy and Lebanon offices consistent with the methodology detailed in the above-referenced prefiled testimony.

(iii) The Company shall file the appropriate affiliate agreements for the allocation of general plant to all VGDC affiliates and for the transfer of office equipment from VGDC to Virginia Gas Propane.

(iv) The Company shall file an amended affiliate agreement denoting the time frame for the settlement of intercompany transactions and include a provision requiring interest payments on overdue affiliate payable balances.

(v) The Company shall file a depreciation study with its next rate application or within two years of the date of the Final Order in this proceeding, whichever is earlier.

(vi) All financial reports submitted to Staff or the Commission shall be on a Virginia jurisdictional ratemaking basis.

(vii) The Company requires $300,000 in additional gross annual revenues.

(viii) The Company should implement deferred gas accounting effective with the change in base rates to recognize differences between gas costs incurred and recovered.

II. Cost of Capital Recommendations

1. It is appropriate to defer consideration of an authorized return on equity until a future rate proceeding.

2. It is appropriate to use Virginia Gas Company's consolidated capital structure for VGDC based on the December 31, 1998, test period.
3. It is appropriate to reduce the face amount of long-term debt by the unamortized balance of issuance costs and losses on debt reacquired and refunded with new debt.

III. Jurisdictional Separation Study, Cost of Service Study, Revenue Apportionment, Rate Design, and Tariff Revision Recommendations.

1. Staff's jurisdictional separation study is a reasonable approach for allocating expenses, capital costs, and revenues among the Company's jurisdictional and non-jurisdictional or governmental customers.
2. In jurisdictional separation studies filed in future rate proceedings, the Company will use Staff's methodology for allocating the various different expense and rate base accounts.
3. Staff's cost of service study is a reasonable approach for separating costs among customer classes.
4. The Company will file a class cost of service study as part of its next application for an increase in

rates. In preparation for that filing, the Company will begin collecting and compiling peak day demand information.

5. The allocation of transmission and distribution mains and related investments should be based on non-coincident peak day.

6. The Company's apportionment of its revenue increase based on the percentage of current non-gas revenues for each customer class is appropriate in this proceeding.

7. The customer charges for Phase I and Phase II of the increase are as follows:

	Phase I	Phase II
Residential	$7.00	$8.00
Commercial	$28.00	$30.00
Industrial	$80.00	$85.00
Negotiated	$175.00	$200.00

   The remainder of the revenue increases apportioned to each customer class is to be distributed to the volumetric rate blocks equally over both phases of the increase.

8. If the Commission approves an increase that differs from the Company's requested increase, the final rate design for each class should reflect the same

percentage split between customer charges and volumetric rates as used in the Company's rate design. Final rates should be designed consistent with the Accounting Staff's customer growth and weather normalization adjustments if the Commission accepts such adjustments.

9. The Company's proposed PGA mechanism and changes in its tariff relative to such mechanism are appropriate.